



DEFENSE LOGISTICS AGENCY
DEFENSE LOGISTICS SUPPORT COMMAND
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IN REPLY
REFER TO DLSC-P
FARS DEV 99- 20

DEC 21 1999

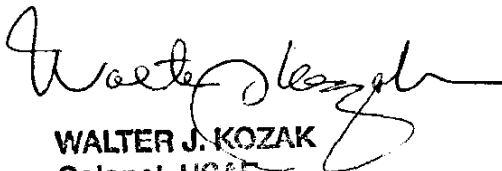
MEMORANDUM FOR PROCLTR DISTRIBUTION LIST

SUBJECT: Class Deviation from Federal Acquisition Regulation (FAR) 31.203(c)
Indirect Costs

This memorandum forwards the subject class deviation from the Director, Defense Procurement, dated September 29, 1999. The deviation authorizes all Department of Defense contracting **activities to deviate** from the requirements of FAR 31.203(c) when costs disallowed under FAR 31.205-52 are required to be included in the indirect cost base.

Prior to April 15, 1996, the Cost Accounting Standards (CAS) measured, assigned, and allocated the costs of tangible capital assets acquired in a business combination under the purchase method of accounting on the basis of fair market value. This often resulted in an increase in the value of the assets over the pre-business combination book value; the increase is commonly referred to as the step-up amount. FAR 31.205-52 disallowed this step-up amount.

This FARS DEV is effective immediately and remains in effect until September 30, 2002, or until FAR 31.203 (c), is revised, whichever event occurs first. The point of contact is John Farrar, (703) 767-1471 or DSN 427-1471, E-Mail: john.farrar@hq.dla.mil.


WALTER J. KOZAK
Colonel, USAF
Deputy Executive Director
Procurement Management

Attachment



ACQUISITION AND
TECHNOLOGY

OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON
WASHINGTON DC 20301-3000

September 29, 1999

DP(CPF)

In reply refer to
DAR Tracking Number. 99-00009

MEMORANDUM FOR DIRECTORS OF DEFENSE AGENCIES
DEPUTY FOR ACQUISITION AND BUSINESS MANAGEMENT,
ASN(RD&A)/ABM
DEPUTY ASSISTANT SECRETARY OF THE AIR FORCE
(CONTRACTING), SAF/AQC
DEPUTY ASSISTANT SECRETARY OF THE ARMY (PROCUREMENT)
EXECUTIVE DIRECTOR FOR PROCUREMENT MANAGEMENT (DLSC/DLA)

SUBJECT: Class Deviation--Federal Acquisition Regulation (FAR)
31.203(c), Indirect Costs

Effective immediately, all Department of Defense contracting activities shall deviate from the requirements of FAR 31.203(c) when costs disallowed under FAR 31.205-52 are required to be included in the indirect cost base.

Prior to April 15, 1996, the Cost Accounting Standards (CAS) measured, assigned, and allocated the costs of tangible capital assets acquired in a business combination under the purchase method of accounting on the basis of fair market value. This often resulted in an increase in the value of the assets over the pre-business combination book value; the increase is commonly referred to as the 'step-up' amount. FAR 31.205-52 disallowed this step-up amount.

When assets that are valued at fair market value are included as part of the base for allocating indirect costs, CAS requires that indirect expenses be allocated to the entire fair market value, including any step-up amounts. FAR 31.203(c) renders unallowable that share of the indirect expenses that are allocable to the disallowed step-up amount.

The purpose of FAR 31.205-52 is to assure that the amount of depreciation of tangible assets and amortization of intangible assets the Government pays is not increased as a result of a business combination. However, in this situation, contractors should not be penalized by having their indirect cost recovery reduced. Therefore,



I am authorizing a deviation from FAR 31.203(c). The deviation relates only to the application of FAR 31.203(c) to costs disallowed under FAR 31.205-52. Thus, when costs disallowed under FAR 31.205-52 are **required** to be included in the indirect cost base, the indirect expenses proportionate to those disallowed costs will not be disallowed on the basis of FAR 31.203(c).

This deviation applies to all future contracts. It also applies to indirect rates applicable to open **cost-reimbursement** contracts, provided that the final indirect rates have not been established (see FAR 42.705) as of the date of this memorandum. The deviation also applies to any other situations requiring that indirect costs be **settled before** contract prices are established, provided that the final indirect cost rates have not been established (see FAR 42.705) as of the date of this memorandum.

This class deviation is effective through September 30, 2002.



Eleanor R. Spector
Director, Defense Procurement

cc: DSMC, Ft. Belvoir